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RUEHRC/DEPT OF AGRICULTURE WASHDC
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USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER
EEB/CIP DAS GROSS, FSAEED, MSELINGER
USTR FOR CATHERINE HINCKLEY

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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF MAY 12-16, 2008

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¶1. (U) Below is a compilation of Economic highlights from Embassy New Delhi for the week of May 12-16, 2008, including the following items:

-- EXIM VISIT HIGHLIGHTS NEW INFRASTRUCTURE FINANCING FACILITY
-- EXIM MEETS WITH INDIA INFRASTRUCTURE FINANCE CO.
-- INDUSTRIAL GROWTH MODERATES IN FISCAL YEAR 2007-08
-- SLOWING INDUSTRIAL GROWTH MAY PROMPT ECB CHANGE
-- INDIAN EXPORTERS PLEASED WITH WEAKER RUPEE
-- GOI BROWBEATS CEMENT AND STEEL INDUSTRY INTO PRICE CUTS
-- FAKE DRUG MARKET EXPANDS IN INDIA
-- MARKETING APPROVAL MAY BE LINKED TO PATENTS
-- CII SUMMIT ON CSR

EXIM VISIT HIGHLIGHTS
NEW INFRASTRUCTURE FINANCING FACILITY

¶2. (SBU) As a reflection of Export-Import Bank's (Ex-Im) growing commitment to India, Ex-Im Chairman James Lambright visited Mumbai and New Delhi on May 12-14 to announce the export credit agency's new $2.2 billion India Infrastructure Facility (IIF). The facility has identified eight Indian financial institutions to participate in the facility: Power Finance Corp., Infrastructure Development Finance Co., IDBI Bank Ltd., India Infrastructure Finance Co., State Bank of India, Infrastructure Leasing &Financial Services, India Renewable Energy Development Agency and Punjab National Bank. All but IIFCL signed memoranda of understanding with Ex-Im during Chairman Lambright's visit. Lambright used the visit to highlight Ex-Im's growing commitments to India, currently at $3.5 billion, with another $6 billion of commitments in the pipeline for the next few years. Given the pipeline, Lambright expects India to surpass

Mexico as the largest beneficiary of Ex-Im financing. Mexico currently has $7 billion in financing. Exim's total worldwide portfolio of loans outstanding is approximately $60 billion.

EXIM MEETS WITH
INDIA INFRASTRUCTURE FINANCE CO.

¶3. (SBU) Ex-Im senior loan officer and Emboffs met with IIFCL chairman Kohli on May 15 to discuss the reasons behind IIFCL's decision not to sign a memorandum of understanding with Ex-Im. Kohli indicated that the board had initally decided against the signing, but were now more inclined to do so, if the board could receive information highlighting where US exporters could competitively supply Indian infrastructure needs. Kohli was hopeful that the board could resolve the issue soon. Kohli noted that their use of the Ex-Im guarantees must still get approval of the RBI, just like any private entity. However, he implied that IIFCL would have an easier time than other entities because of its close government ties. It has a higher-than-usual ceiling on ECB guarantees of $2.5 billion, of which IIFCL used $1 billion last year and plans to use $1.5 billion this year. Kholi also hinted that their ceiling could be raised to $5 billion if necessary.

¶4. (SBU) Kohli also provided some insights into the operation of the foreign exchange reserve investment facility recently set up as a subsidiary of IIFCL in London. IIFCL as a whole has disbursed $500 million out of $4 billion committed, although none has yet come from the UK entity. They will receive funds in $250 million tranches and disburse as they go, with the Indian office making all lending decisions. They pay LIBOR to the RBI and charge a nominal markup to borrowers. They have access to $5 billion per year, which at the moment is a non-binding constraint. London was chosen because of the strength of the regulatory environment, despite the

fact that the UK's regulatory body, the Financial Services Authority (FSA) has no authority over them. Singapore and Dubai were their first choices, but the RBI overruled.

INDUSTRIAL GROWTH MODERATES
IN FISCAL YEAR 2007-08

¶5. (U) The index of industrial production (IIP) for the month of March 2008 dropped to 3% (the lowest since February 2002), although some of the change was due to March 2007's high statistical base - growth that month was 14.7%. March 2008 output put industrial growth for full FY 2007-08 at 8.1% versus 11.6% in FY 2006-07. Rate sensitive consumer durables such as motorcycles, refrigerators, and air conditioners witnessed the sharpest drop, with negative growth of 2.1% in March compared to the same time last year. The manufacturing sector, which carries a weight of 79.3% in the IIP, grew by just 2.9% in March 2008. In addition, lower output in crude oil, petroleum refinery, electricity generation and coal also pulled down the IIP in March. Cumulatively, the manufacturing sector registered a still decent growth of 8.6% in FY 2007-08, although down from 12.5% in FY 2006-07.
¶6. (U) Despite sluggish growth in the IIP in March 2008, India's core infrastructure sectors, with a combined weight of 26.7% in the IIP, recorded a robust increase of 9.6% in March 2008 (driven by growth in finished steel at 21% and cement at 9.3%) compared to 10.5% growth in the same period last year. However, for full FY 2007-08, growth in the six core sectors fell by almost half to 5.6% compared to 9.2% in FY 2006-07. Growth in capital goods remained healthy as it grew by 16.5% in FY 2007-08, marginally less than the 18.2% registered in 2006-07, indicative of continued investment taking place in the economy.
¶7. (U) Economists expect industrial growth to revive in April and moderate to around 7.5% in FY 2008-09. Industry analysts are not buying the base effect explanation and opine that the industrial output is slowing down due to higher interest rates and rising costs of inputs. They further blame the fall in consumer durables growth on faulty construction of the IIP. For instance, the index includes black and white televisions, VCR's and tape recorders. Deputy Chairman of the Planning Commission Montek Singh Ahluwalia has also voiced concern that there exist certain lags in India's data

collection systems that need revamping. The GOI is already working towards overhauling the consumer durables basket, in which new goods such as liquid crystal displays and laptops will find a place, while typewriters and sewing machines may be phased out.

SLOWING INDUSTRIAL GROWTH
MAY PROMPT ECB CHANGE

¶8. (SBU) Economic Times reported today that the IIP data showing that industrial growth slowed to 3% in March compared to March 2007 may prompt the Ministry of Finance and RBI to loosen restrictions on domestic companies' external commercial borrowings (ECBs). In August of last year, the RBI announced that companies were limited to repatriating only $20 million of any foreign financing; the rest had to be spent outside India, so as to mitigate the inflationary and rupee appreciation pressure from capital inflows. The government also places - though did not enforce in FY08 - an aggregate $22 billion limit on total ECBs per year as well as limiting Indian bank guarantees of foreign financing to 25% of net worth. In light of the moderation in industrial growth, stemming from higher domestic interest rates and rising input costs, coupled with the recent FII outflows and rupee depreciation, market analysts anticipate that the RBI may be more willing to consider easing ECB restrictions. The Ministry of Finance's Joint Secretary for Capital Markets, K.P. Krishnan, had already indicated to Emboffs MoF receptiveness to changes in the policy.

INDIAN EXPORTERS PLEASED
WITH WEAKER RUPEE

¶9. (U) Reports indicate that the approximately five percent depreciation in the Indian rupee against the US dollar over the last two weeks is helping Indian exporters as they book new orders, especially vis-a-vis China, where the yuan-dollar rate has been relatively steady. The rupee is now trading at around 42.5 against the dollar. The Indian currency gained more than 10 per cent in fiscal year 2007-08, but it reversed and started depreciating in April, due to a combination of lower capital inflows and higher imports. Despite the relative increase in volatility, the Reserve Bank of India has abstained from intervening in the foreign exchange market so far. Based upon the weaker rupee, the Federation of Indian Export Organizations (FIEO) now hopes to achieve an export target of $200 billion with improved volumes due to the weaker rupee. According to FIEO, India missed its target by five billion dollars in IFY 2007-08, with a total of $155 billion in exports, due to slowing demand in the US coupled with the weakening of the dollar against the Indian rupee during that time period.

GOI BROWBEATS CEMENT AND STEEL
INDUSTRY INTO PRICE CUTS

¶10. (U) On May 14, the Government of India (GOI) persuaded local secondary steel makers and cement manufacturers to cut product prices, as a part of its efforts to contain inflation. Earlier, primary steel producers promised to cut prices to ensure better availability of steel for the domestic industry. Steel secretary R.S. Pandey told press reporters that the secondary steel producers, accounting for about 7 million tons of steel production, have pledged to hold the new reduced price line for the next three months. He also confirmed the GOI is examining the request by the steel industry to lower recently imposed export duties. Taking credit for the recent measures, Pandey highlighted that steel product prices have come down by 20 percent from their peak. The GOI has also pressured cement manufacturers into rolling back prices to levels prevailing before April 30. The cement producers have agreed to hold prices steady for at least three months.

FAKE DRUG MARKET
EXPANDS IN INDIA

¶11. (U) ASSOCHAM (Associated Chamber of Commerce - a prominent industry body) estimates that the counterfeit drugs market in India is growing at 25 percent annually. In fact, the Organization for Economic Cooperation and Development's (OECD) latest figures say 75 percent of fake drugs supplied the world over have their origins in India. However, the Government of India's (GOI) own Health Ministry estimates are much more conservative, putting the amount of counterfeit drugs supplied globally and sourced from India at about 5 percent. The GOI defines a counterfeit medicine as one that has no active ingredient or is an expired drug which has been re-labeled and sold. (Note: There is a general confusion in terminology between fake, spurious and counterfeit among Indian media, and the terms are interchangeably used. Under Indian law, both counterfeit and fake drugs are described as 'spurious' medicines. U.S. law defines counterfeit drugs as those sold under a product name without proper authorization. Counterfeiting can apply to both brand name and generic products, where the identity of the source is deliberately and fraudulently mislabeled in a way that suggests that it is the authentic approved product. End Note.)

¶12. (U) These findings by various organizations and the looming threat of India becoming a big counterfeit drug market have prompted the Drug Controller General of India's (DCGI) office to undertake a Rs.5 million (approx $120,000) study to assess the actual size of the spurious drug market in India. DCGI plans to complete the survey within six months by randomly collecting 31,000 samples from various drug outlets. With a detailed project design, it has already identified for testing 61 popular drug brands in nine therapeutic categories, including anti-tuberculosis, anti-allergy, diabetes, cardiovascular diseases, anti-infective steroids, anti-malaria, anti-histamine, and multi-vitamins. DCGI's office claims that on average 1000 drug inspectors pick up 40,000 drug samples annually for regular testing according to which 0.3-0.4 percent have zero active content while 8 percent are substandard. However, a local drug expert, Dr. C.M. Gulati reportedly stated that the 26 government labs test only one percent of the drugs manufactured annually.

¶13. (U) GOI Department of Biotechnology Secretary, M K Bhan, has been quoted as saying that the "counterfeit drug market is still not a colossal problem in India, but a close watch on the [counterfeit] market's expansion is required to punish those involved with it." Dr. C M Gulati observes that the estimates on India's counterfeit drug market are highly exaggerated, and the cost of producing fake and real drugs in the low-cost Indian market is roughly equivalent, which acts as a disincentive to counterfeiters. According to Dr Gulati less than 3 percent of the Rs.320 billion ($7.7 billion) pharmaceutical industry in India is spurious.

¶14. (SBU) Health Attach met with the DCGI Dr. Surinder Singh and emphasized that for the DCGI's estimation of the counterfeits market, sample size and a proper sampling scheme are essential to obtain accurate results.

MARKETING APPROVAL
MAY BE LINKED TO PATENTS

¶15. (U) According to press reports, the Drug Controller General of India (DCGI) is considering linking pharmaceutical marketing approval to patents. Such a move could prevent domestic pharmaceutical manufacturers from selling generic versions of drugs that are under patent in India. Currently, the DCGI does not consider patents in evaluating applications for marketing approval, leaving the burden on the innovating company to address cases of patent infringement in the courts, after the generic has gone to market. While this new policy of the DCGI could usher in dramatic changes in the Indian pharmaceutical industry, there is no current timeframe for when the implementing regulations might be in place.

CII SUMMIT ON CSR

¶16. (U) Confederation of Indian Industry (CII) organized a national

summit on Corporate Social Responsibility (CSR) in New Delhi in the first week of May. Representatives of the government, NGOs and civil society participated in the summit. Also participating were senior officials from Coca-Cola, GE Electric, Microsoft, Boston Consulting Group, Hero Honda, the Chief Minister of Rajasthan, a Member of Parliament, Secretary of the Ministry of Corporate Affairs, a Member of the Planning Commission, and press. The summit emphasized that in order for both companies and the country to develop, it is important to adopt an index to measure the impact on human development around the company's operations. This will help avoid mistrust toward industry, unrest among the community surrounding the area of operation and contribute to inclusive growth in real terms.

¶17. (U) Panel discussions were held on India's experience with CSR and where it is going. Discussions considered whether privatization is a solution, since India's social infrastructure has not kept up with the growth and needs. The sessions tried to explore how government and industry can partner together to make widespread inclusive growth.
The companies agreed upon working towards protecting and preserving the environment. Stress was laid on improving education, health care and water management through Public Private People Partnerships (P4). Further, there were very positive discussions on empowering rural India and adding millions to the economic mainstream.

¶18. (U) Visit New Delhi's Classified Website:
http://www.state.sgov/p/sa/newdelhi

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